



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

John G. Morgan
Comptroller of the Treasury

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

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MEMORANDUM

To: All CPA's Performing Audits for the Division of Municipal Audit

From: Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

Subject: Implementation of Statement on Auditing Standards No. 112

SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* supersedes SAS No. 60 and will impact all audits performed for our office with fiscal years ending on or after December 15, 2006. In particular, the standard:

- Replaces the term *reportable condition* with the terms *significant deficiency* and *material weakness* which are both defined in the new standard.
- Provides guidance on the severity of control deficiencies identified in an audit of financial statements.
- Requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

This new SAS will have a significant impact upon identifying and reporting internal control deficiencies. The ACIPA has issued new reports on internal control and compliance that reflect substantial changes.

For guidance in implementing the new standard and the sample reports, please see the following websites:

- <http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Practice+Aids+and+Tools/Understanding+SAS+No+112.htm>
- <http://gaqc.aicpa.org/Resources/Illustrative+Auditors+Reports/>
- <http://pcps.aicpa.org/Resources/Keeping+Up+With+Standards/SAS+No+112+Toolkit.htm>